

FISCAL NOTE

Bill #: HB0338

Title: Professional retirement option for TRS members

Primary Sponsor: Jent, L

Status: As Introduced

Sponsor signature

Date

David Ewer, Budget Director

Date

Fiscal Summary

| | <u>FY 2006</u> <u>Difference</u> | <u>FY 2007</u> <u>Difference</u> |
|--|---|---|
| Expenditures: | | |
| General Fund | \$0 | \$6,468,800 |
| Other | | \$119,400 |
| Revenue: | | |
| Other | \$0 | \$6,922,500 |
| Net Impact on General Fund Balance: | \$0 | (\$6,468,800) |

- | | |
|---|---|
| <input checked="" type="checkbox"/> Significant Local Gov. Impact | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached | <input checked="" type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

1. Retirement benefits for members of the Teachers Retirement System (TRS) retiring on or after June 1, 2007 who are at least age 55, and have 30 or more years of creditable service, will be calculated using a formula of 2.0 percent per year of service instead of the current formula of: service divided by 60 (i.e., 1.6667 percent per year of service).
2. Actuarial costs are based on the assets and member data used in the July 1, 2004, actuarial valuation.
3. The exact impact this benefit enhancement will have on the System's retirement patterns is not known; therefore, no adjustment has been made to the July 1, 2004 actuarial valuation assumptions.
4. As of July 1, 2004, 1,109 TRS members had 30 or more years of service and would be eligible for the benefit enhancement under HB 338.
5. To actuarially fund the benefit enhancements included in this bill as required by the Montana Constitution, a state general fund contribution equal to 0.99 percent of member's compensation effective July 1, 2006 and 1.98 percent effective July 1, 2007, are required.
6. Total wages reported to the Teachers' Retirement System are assumed to grow at an annualized rate of 4.5%. However, because university system membership in TRS is declining, the net increase will be less. Total wages for fiscal years 2006 and 2007 are estimated at \$609.2 million and \$632.2 million respectfully.

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7. State general fund contributions for the 2006-07 biennium will be approximately \$6,259,000 (\$632.2 million x 0.99%).
8. Impact on termination pay option one retirement: If a member retiring under the Teachers' Retirement System elects to include termination pay in the calculation of average final compensation, §19-20-716(1)(a), MCA, requires that the employee and their employer contribute to the TRS the actuarial cost of the benefit enhancement received. As a result of the enhanced multiplier required under this bill, the actuarial cost to include termination pay in the calculation of benefits will increase by approximately 20 percent. (Termination pay includes any lump sum payment received on account of termination and retirement, e.g., unused sick and vacation leave and early retirement cash incentives.)
9. In the past three years, an average of 201 members have retired with 30 or more years of service. Termination pay received by this group has averaged approximately \$2.8 million with employer contributions to the TRS of \$3,317,500. While it is not possible to determine the precise amount of termination pay members would receive who are also eligible to retire under HB 338, if retirement patterns and the total amount of termination pay remained unchanged for members retiring with 30 or more years of service, employer contributions paid to TRS under termination pay option one would increase approximately \$663,500 ($\$3,317,500 \times .20 = \$663,500$) per year beginning in FY 2007.
10. This increase in option one termination pay employer contributions is split roughly between schools, \$457,900, the university system, \$199,000 and state agencies, \$6,600.

| Entity | General Fund | County Levies | University Funds | Total |
|-------------------|--------------|---------------|------------------|---------|
| Schools | 123,600 | 334,300 | | 457,900 |
| University System | 79,600 | | 119,400 | 199,000 |
| State Agencies | 6,600 | | | 6,600 |
| Total | 209,800 | 334,300 | 119,400 | 663,500 |

FISCAL IMPACT:

| | FY 2006 <u>Difference</u> | FY 2007 <u>Difference</u> |
|---------------------------------------|------------------------------|------------------------------|
| <u>Expenditures:</u> | | |
| Personal Services – State | \$0 | \$6,600 |
| Personal Services – University System | 0 | 199,000 |
| Local Assistance – Schools | 0 | 123,600 |
| Transfers | <u>0</u> | <u>6,259,000</u> |
| TOTAL | \$0 | \$6,588,200 |

Funding of Expenditures:

| | | |
|-------------------|----------|----------------|
| General Fund (01) | \$0 | \$6,468,800 |
| University Funds | <u>0</u> | <u>119,400</u> |
| TOTAL | \$0 | \$6,588,200 |

Revenues:

| | | |
|--------------------------|-----|-------------|
| Other (09) Pension Trust | \$0 | \$6,922,500 |
|--------------------------|-----|-------------|

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Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

| | | |
|-------------------|-----|---------------|
| General Fund (01) | \$0 | (\$6,468,800) |
| University Funds | \$0 | (\$119,400) |
| Other | \$0 | \$6,922,500 |

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

As a result of the enhanced multiplier required under this bill, the actuarial cost to include termination pay in the calculation of benefits will increase by approximately 20 percent. The anticipated cost to county levies from this bill is \$334,000 in FY 2007.

LONG-RANGE IMPACTS:

The increase in TRS contributions shown in this fiscal note for the 2007 biennium will approximately quadruple in the 2009 biennium, when the second half of the contribution rate increase goes into effect for the full biennium.